

## Drug-Price Surge May Erode Savings From Medicare Card

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With seniors three months away from getting Medicare drug-discount cards, the government and consumer-advocacy groups are on alert for signs that the savings are being eroded by price increases.

It might be too late.

The prices of many widely used drugs have surged since President Bush first proposed a Medicare drug-discount card in mid-2001. The average wholesale price of cholesterol fighter Lescol, made by **Novartis** AG, is up by more than a third, while **Bristol-Myers Squibb** Co.'s Coumadin blood thinner has risen 22%.

Prices for drugs the elderly use most often climbed nearly 3½ times faster on average than overall inflation between January 2002 and January 2003, according to consumer group Families USA, which used data from a Pennsylvania program for the elderly.

Families USA, based in Washington, D.C., also warns on its Web site that the Medicare drug law that created the discount cards is vulnerable to price increases by the drug industry, "like a department store marking up prices on products so that it can later offer them 'on sale' at tremendous 'savings.'"

Nearly all 40 million people in the federal Medicare insurance program are eligible to get the new drug-discount card in June. Some cards will carry an annual fee of as much as \$30, but the government expects users to save 10% to 25% on retail prices.

Hoping to keep drug prices in check, Sens. Olympia Snowe (R., Maine) and Ron Wyden (D., Ore.) have asked the General Accounting Office to monitor drug prices. Elderly-advocacy group AARP is running full-page newspaper ads asking drug makers to limit price increases to no greater than the inflation rate. In a letter earlier this month, AARP also asked 16 pharmaceutical companies to "use your influence to curtail greater markups throughout the distribution chain to retail."

Meanwhile, **Pfizer** Inc. faces a shareholder resolution from the Interfaith Center on Corporate Responsibility slated for a vote at next month's annual meeting to keep future price increases in line with overall inflation. The average wholesale price of Pfizer's top seller, cholesterol drug Lipitor, is up 19% in the past 2½ years, and its popular pain reliever Celebrex rose 23%. Pfizer has urged shareholders to reject the measure, saying it has a history of "moderate pricing."

The battle over drug price increases already is playing out in a lawsuit over a drug-discount card offered on a much smaller scale by several drug makers, including **Abbott**

**Laboratories**, Bristol-Myers, **GlaxoSmithKline PLC**, Novartis and **Aventis SA**. The suit, which was filed in 2001 in U.S. District Court in Boston and recently survived a dismissal motion by the drug makers, alleges that the companies conspired with each other to raise the average wholesale prices of their medications at about the same time when their Together Rx card was launched in June 2002.

Pfizer has its own discount card and doesn't participate in Together Rx. But the company is named in the Together Rx suit because the plaintiffs claim it engaged in similar pricing activities. Pfizer says its own discount programs, which include a 30-day supply of any Pfizer-made drug for \$15, helped save the neediest patients money on 6.6 million prescriptions last year, up from 2.3 million in 2001. Pfizer declined to comment on the suit.

The cumulative "rate of increase over the past three years of brand-name drugs used by the elderly is on the order of 20% to 25%," says Stephen W. Schondelmeyer, a pharmaceutical-economics professor at the University of Minnesota who worked with Families USA on its drug-price report. He also is helping lawyers for the plaintiffs in the Together Rx suit, a group of unions and consumer advocates, on their case.

Bob Perkins, executive director of the Together Rx program, says the price-hike allegations lack merit. He says the discount card has helped more than 1.3 million users save more than \$370 million on the retail price of more than 170 brand-name medicines. The card gives low-income seniors 20% to 40% discounts on certain drugs.

How drug prices are set is complicated and controversial. While the Together Rx suit claims that drug makers banded together to boost the average wholesale prices of their medicines before rolling out the discount card, drug makers denied in a court filing that they have anything to do with setting those prices. Instead, the drug makers claim that independent pricing publications calculate those numbers on their own.

Average wholesale prices are important because many pharmacy benefit managers and government programs set reimbursement levels based on those prices. In the Together Rx program, the drug companies base their discounts in part on the average wholesale prices published by **Hearst Corp.**'s First DataBank Inc. unit. The drug makers' so-called factory prices and the average wholesale prices generally aren't available to consumers.

According to the lawsuit, price increases in 2002 caused the "spreads" between the factory prices set by drug makers and First DataBank's listed average wholesale prices to increase to 25% for most Together Rx drugs, up from a range of 16% to 25%. The drug makers claim that First DataBank adjusted data it collected so that the gap would reach 25%.

Eve Burton, Hearst's general counsel, says First DataBank doesn't set drug prices, either. "We aren't in the pricing business; rather, we are reporter and publisher of data that we collect from third parties," she says. First DataBank surveys the drug wholesalers on a regular basis, but doesn't confirm the data with the wholesalers' customers. She declines to comment on the suit.

Together Rx's Mr. Perkins says raising prices to offset drug-card discounts doesn't make sense as a strategy because it would raise the subsidy that the drug companies pay to pharmacists who fill prescriptions for the program's elderly recipients.

In general, factory prices also have been rising faster than overall inflation rates. **Johnson & Johnson** says it raised the factory price of the antipsychotic Risperdal by 5% and then an additional 6% in 2002. Risperdal's average wholesale price jumped 18% in the same period.

Some patients are fans of the cards despite all the controversy. John Chicoine, a 71-year-old Medicare recipient in Rocky Mount, N.C., says other drug-discount cards he tried generated little or no savings in his \$140-a-month drug bill. Since using Together Rx, he has cut his monthly prescription bill to \$30 a month, saving more than \$1,000 last year.

Mr. Chicoine was so impressed that he wrote to Together Rx. He has since been put in Together Rx magazine advertisements and Bristol-Myers' annual report.